

I. Introduction: Statement of the Problem

1. The basic objective of the economic defense program is to limit or impair the present and potential military strength of the Communist bloc without undue impairment of the military and economic strength and political unity of the free world, insofar as this can be accomplished through controls on the trade and other external economic relations of the bloc. The simplest and most obvious method of doing this would be to deny to the bloc all imports from the rest of the world. A complete stoppage of trade would ensure both a) the denial of imports particularly significant to the bloc military build-up and b) the maximum overall loss of trade advantage to the bloc.

2. However, in the present economic defense program, a complete stoppage of trade with the bloc has been ruled out, partly because this would be at variance with established US foreign economic policy which favors expanded trade and liberal trade policies, but mainly because it is fairly clear that a complete embargo on trade with the bloc would be diplomatically unattainable in a multilateral framework. An ostensible reason frequently stated and given its classical expression by Churchill is that trade provides "helpful contacts and associations," permits "friendly infiltration." In any case, the policy adopted was a policy of limited controls over exports to the bloc.

3. From the viewpoint of economic defense objectives alone, i.e., the maximum impairment of Soviet capabilities relative to those of the West, a complete embargo on East-West trade is preferable to a limited or "selective" control program. But given the necessity of a limited control program, the problem then is primarily one of means, rather than ends. How shall trade be limited and how far? Which imports of the Soviet bloc should be selected for denial? To what degree should the normal volume and pattern of imports be interfered with?

~~Basically there are two approaches to the problem of which goods to deny in an export control program which may be labelled selective and~~
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~~the denial or the export of particular goods. Limitation of the volume of trade could be achieved in a number of ways, all more or less arbitrary, such as fixing a percentage of a base period, or similarly establishing quantitative limits for various commodity categories of selective controls. These possibilities are discussed more fully below.~~

II. Brief Description of Present Policies

1. Objectives

The present multilateral economic defense (export control) program is essentially a selective control system, one which attempts to identify and deny those imports which would contribute most to bloc military capabilities. NSC 152/3 expresses one of the general objectives of the control program as "to control selectively exports of commodities and supply of services from the free world which contribute significantly to the war potential of the Soviet bloc." (This document not only assumes that the effects of the denial of particular goods or groups of commodities on the bloc economic potential for war can be calculated; it suggests that these can be weighed against the advantages to the free world of the trade that would otherwise result:

"... interference in the trade between the free world and the Soviet bloc should take place only where a clear advantage to the free world would accrue from such interference" (Para. 3).)

The first "general consideration" set forth in NSC 152/3 suggests that the purpose of trade controls is to reduce the "relative economic potential for war" of the Soviet bloc. Nothing is said about obtaining the maximum reduction in the bloc's relative economic potential, presumably because of an awareness of the difficulties and costs which such an attempt would entail for many friendly countries. Yet running through the record of official discussions of the control program is an implicit assumption that the objectives of the economic defense program can be fully achieved merely by selective trade controls. The fact that the Soviet gains from trade in other than "strategic" items appears to be overlooked.

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Although US trade with the Soviet bloc and China has virtually ceased, the United States has never advocated a complete cessation of trade with the Communist countries. A selective control program, on the contrary, has been advocated not as "half a loaf better than none" expediency but rationalized as good in principle.

"Assuming that the necessary security safeguards are present, the free-world countries take the view that there are positive advantages to their own economies to be had in East-West trade-- as well as other trade--and they also are anxious to keep open all paths that might lead to a sounder basis for peace in the world.¹

"Therefore the free world does not consider East-West trade as bad in itself.

"I am frank to say to you that the United States Government shares this view with other friendly governments, and sees no cause for undue concern over non-strategic East-West trade."

On similar grounds the Randall Commission recommended to the President and Congress in January of 1954 "that so far as it can be done without jeopardizing military security, and subject to the embargo on Communist China and North Korea, the United States acquiesce in more trade in peaceful good between Western Europe and the Soviet bloc."

This view of the desirability of a limited control system of course rests on the assumed ability to distinguish between "strategic" and non-strategic" trade, as well as ^{to discern} ~~between~~ trade which confers a "clear advantage" on the free world. This involves the concept of "the net security advantage." The Fourth Battle Act Report stated that the basic policy of the United States on East-West trade rested on four principles, of which number three read "The free world may derive a net security advantage out of some East-West trade." This concept was explained as follows on page 39 of the same report:

1. Statement prepared for Admiral Delany's use before House Subcommittee on Foreign Economic Policy, ED/EC D-86, April 15, 1955, p. 4, 6.

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"To urge complete embargo in the present situation is to ignore the fact that the present trade situation offers opportunities to the free world. The free world, with its enormous production, can benefit from trade; the test is what goods are traded and on what terms. The free nations are stronger economically than they have ever been. Collectively they are far stronger than the Soviet bloc. They possess tremendous resources. On the whole they have solid and healthy competitive systems. Their businessmen have behind them centuries of experience in bargaining, merchandising, and servicing. With these factors creating for the free world a currently strong trading position, the free-world nations should be able to take advantage of the needs of the Soviet bloc and by hard bargaining gain benefits from East-West trade."

Finally it should be noted that, especially since the reappraisal in 1954, the desirability of a limited control system is a corollary of certain assumptions regarding the imminence of war between the Soviet bloc and the free world, which were described as follows in the opening statement by the United States at the meeting of the Consultative Group in Paris in April 1954.¹

"No one can assume that the possibility of war has disappeared altogether from view. The risk of war is ever present and must influence our thoughts and our actions in the period that lies ahead. Yet the balance of probability favors the prospect of there being a long period of tension, of watchfulness, of uneasiness in the world - tension short of war but including within it the ever present risk of war.

"Our system of security controls upon trade with the Soviet areas must be fashioned and adapted to the situation which confronts us. A system designed with the imminent prospect of war is not that which we would have devised had we made the assumption which now guides our policies in all related security fields, and has been generally confirmed by the outcome of the Berlin Conference."

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Such assumptions regarding the probability and timing of a possible war actually would be more consistent, theoretically, with a long range program directed, insofar as possible, at the growth of Soviet overall economic capabilities than with a program directed, as is the present one, at short run military capabilities.¹

2. Criteria for Controls

Before the revision of the COCOM and Battle Act lists in the summer of 1954, there were no officially agreed international criteria for determining what items should be controlled. However, The COCOM lists were the product of negotiations that began with proposals by the US, the UK and France. In drawing up their proposed lists, the following criteria were employed in selecting items for embargo:²

- "(a) Items which are designed or used principally for the production and/or development of arms, ammunition, and implements of war.
- "(b) Items which would contribute significantly to the war potential of the Soviet bloc where the items incorporate advanced technology or unique technological know-how. This applies only to goods sufficiently important to the war potential of the Soviet bloc that the absence of an embargo would permit a significant advance in Soviet bloc technology over its present level of development.
- "(c) Items which would contribute significantly to the war potential of the Soviet bloc in that the items, if embargoed, would maintain or create a critical deficiency in the war potential of the Soviet bloc."

For List II (quantitative controls) goods had to be "highly important" in contributing to the war potential of the Soviet bloc in proportion to

1. The China controls are, of course, directed much more broadly at the expansion of the Chinese economy and industrial base. In this sense the China trade controls are more in line with the underlying political and strategic assumptions. However China is a special case, treated in another paper.
2. Consultative Group Paper No. V, Annex A, reproduced from CG Doc. 213.

the quantities exported. Items for List III (the surveillance list) had to be of "potential strategic significance" but on which available information was insufficient to establish the need for embargo or quantitative control.

"War potential"¹ was interpreted as follows:

"War potential is to be viewed from both the short term and the long term aspects. It includes (a) items of direct military application. It may also include, amongst others, selected items which represent (b) sectors of industry in which strategic and industrial interests are very closely mingled and where the items concerned can easily and quickly be turned over from peaceful uses to the manufacture of war equipment or other direct military application and (c) other industrial fields which serve to support the basic economy of a country and which therefore support either a peacetime or a wartime economy."

The basis for deciding whether a specific commodity met these criteria varied but in general conventional concepts were used based on American experience to identify goods "of direct military application" and "sectors of industry in which strategic and industrial interests are very closely mingled." Available intelligence was consulted, but was relied upon more for material that could be used in COCOM discussions rather than for conclusive evidence that the criteria were or were not met. Intelligence often could supply information showing the degree of Soviet reliance on imports of particular items (i.e. the ratio of imports to domestic production) but invariably was unable to find that embargo of an item by itself "would maintain or create a critical deficiency in the war potential of the Soviet bloc." Consequently, if an item was regarded as "strategic" in US defense and mobilization planning circles, and if there was any evidence that it was in "short supply" in the bloc, it was likely to be proposed for embargo or quantitative control. Frequently the fact of Soviet bloc imports were taken as evidence of short supply, and while this may be

an excellent reason for embargoing any commodity, it does not constitute a basis for selecting between different imports.

1. *Ibid.*

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In 1954 a very substantial downward revision of the COCOM lists was effected. For this purpose formal criteria were proposed by the US and adopted by the Consultative Group as the basis for the COCOM review.¹ At first glance the new criteria, on the basis of which a substantial pruning of the lists took place appear not greatly different from the old ones.

"(a) Materials and equipment (by types and grades) which are designed specially or used principally for the development, production or utilisation of arms, ammunition, implements of war, and atomic energy materials.

"(b) Materials and equipment (by types and grades) which incorporate advanced technology or unique technological know-how (including production know-how), the acquisition of which may reasonably be expected to permit a significant advance in Soviet Bloc technology in military or atomic energy production over the level of development already achieved or expected to be achieved within a short period.

"(c) Materials and equipment (by types and grades) in which the Soviet Bloc has a deficiency which is critical in relation to its military capabilities and which it could not overcome within a short period."

The chief difference is the elimination of the references to "war potential and in general the wording is much more precise. The connotations of the elimination of the war potential target are set forth in a statement by the UK delegation to the CG commenting on the proposed criteria:²

"In the United Kingdom view there was no doubt that a substantial reduction in the International Lists was desirable and strategically justifiable in the new circumstances. For example, they believed that the following considerations which were entirely consistent with the criteria proposed in the United States paper (COCOM Document 1563) should be taken into account when deciding on the removal of items for the Lists:

1. Consultative Group Paper No. XII, Annex B.

2. Ibid., p. 10-11.

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- "(a) That the Bloc was, or was becoming, self-sufficient, or produced enough of a particular commodity to be able to satisfy its military needs without difficulty.
- "(b) That though an item made some contribution to military potential it was of a general-purpose character and was used for military purposes on a small scale in proportion to its civilian uses.
- "(c) That an item served the basic economy of a country and was not closely enough related to military production to justify embargo."

The effect of the 1954 list revision by COCOM was to limit the control system to only those items (1) that make a direct and measurable contribution to the production of military goods and related technology, or (2) in which the Soviet bloc has a critical deficiency in relation to its military capabilities. Since the British interpretation of (1) has been to exclude "multiple use" commodities, i.e., goods which are useful in civilian production as well as military, relatively few imports qualify under the first criterion (Listing guide (a)). Likewise there were very few cases where (b) advanced technology was cited. The burden of proof for most of the commodities retained therefore rested under (c) -- critical deficiency in relation to military capabilities. Most of the difficult questions and disagreements that have arisen have had to do with Listing guide (c). With regard to this criterion the US delegation made the following statement in the Consultative Group:¹

"The first two listing guides were quite self-explanatory and, at this stage, did not seem to need clarification. With respect to the third listing guide, which would establish the yardstick of a "deficiency which is critical in relation to its Soviet Bloc military capabilities" the term "military capabilities" was intended to include both present and future capabilities. So far as application of these guides was concerned, his Government would expect that, generally and subject to variations in relation to the facts in individual cases, items found to meet either of the first two guides would be considered eligible

1. CG XII, page 8, 111.

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for embargo and items found to meet the third guide would be considered eligible for embargo, quantitative control, or "surveillance", depending on the facts in the individual case."

This interpretation of military capabilities as comprehending both present and future, was not written into the listing guides. It comes closest to approximating the old criteria with their emphasis on war potential but any such interpretation would have come into conflict with the British interpretation given above which clearly excluded citing a contribution to the "basic economy" as a justification for denial. *Possibly* because of this where the United States has attempted to justify embargo of a commodity (e.g. rolling mills and copper) under this criterion, it has construed future military capabilities narrowly in terms of the estimated military requirements for the commodity in time of war rather than as relating to the future growth of military capabilities in general ~~(i.e. war potential)~~. *1000 P.9 Aug 1953*

3. Effects of Revision

Strictly interpreted the new criteria were bound to produce a radical pruning of the lists. This was not because the new criteria were so much different from the old as because the burden of proof now rested on the supporting justification for each item proposed for retention ~~and~~ because the British interpretation not only excluded multiple use items from control-- no matter how important the military applications might be in a qualitative sense-- but also precluded controls over basic and heavy investment goods which would contribute to the expansion of bloc industry even though not directly to military production. Not a great deal is left. *1000 P.9 Aug 1953*

Moreover, each item was considered on its individual merits without any systematic attempt to calculate the aggregate effects on bloc capabilities of the list revision as a whole. The aggregate effect of the list revision thus had an indeterminate relationship to the decisions in each individual case. When the list review was over the United States Government had to admit that in the aggregate the revision went farther than ~~we would like to see.~~ *new has anticipated*

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In the field of machine tools and metal working equipment a number of specialized items such as certain types of boring mills and lathes were retained on the embargo list because they met criteria (a) or (c). In the first case the technicians were able to agree that such equipment was designed to be used principally in the production of ordnance, aircraft, or other military items. In many cases the items were more precisely defined and delimited. The items for which critical deficiency was claimed are more subject to question; in many cases the intelligence data did not clearly meet the criterion but the item was retained on an ad hoc basis. General purpose machine tools such as turret lathes were removed from the list and rolling mills were retained on the embargo list only provisionally. The subsequent dispute over rolling mills has demonstrated that the controls erected on the present criteria are extremely limited since many types of rolling mills although basic to heavy industry expansion do not qualify under the criteria. Heavy power generating equipment was kept under embargo but subject to continuing dispute. Rail transportation equipment including flat cars, tank cars and rails were removed from control although the USSR is engaged in a major expansion of its rail transportation system. Copper metal was kept under embargo only under strong protest and bare copper wire was put on List III. *Only a few metals, columbium, molybdenum, cobalt, tantalum, titanium and germanium, were kept on the embargo list. insert P-10 draft #3 clearly met (a) and (b).*

The above description does not purport to be anything but illustrative of the facts that while a number of special purpose equipment items remain under embargo, many items are no longer controlled which must contribute to the expansion of the Soviet bloc's industrial war potential in proportion to the quantities which will in the future be imported.

III. Evaluation of the Present Controls

NSC 152/3 concludes that:

"Over the long term, trade controls, though withholding a contribution to the overall Soviet bloc economy, cannot seriously impair that economy. Over the short term and in selected areas, however, there probably is a retardation of the growth of Soviet war potential."

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Even if one admits that the controls actually depress the volume of trade, the effect of the present controls is admittedly slight. The bloc economy is large, highly though not uniformly industrialized, and diversified, whereas the total volume and value of its imports by comparison is very small. NIE-59 concluded in April of 1953 that a complete stoppage of trade from then existing levels would not have a significant effect on the general level of economic activity of either the bloc or the West and that while some bottlenecks would be created which would reduce production of specific military end-items, most of these would be eliminated and the imports replaced by domestic production within a period of four years. Again NIE 100-3-54 estimated in March of 1954 that a substantial relaxation of controls would increase bloc economic capabilities but not significantly and that the advantage to bloc military potential would almost certainly be small. → insert p. 17 para #3

Since the overall impact of present controls is admittedly slight the most pertinent questions that can be asked about the impact of the controls are these: (1) Is the impact of denial actually concentrated on the intended target, i.e., production of military goods, or is it generalized throughout the economy? and (2) Is the aggregate impact of the present control system the maximum impact that can be obtained per value unit of goods denied to the bloc?

1. Incidence of Effects Within the Bloc

In general it is impossible to identify any goods imported by the bloc which the bloc could not in time and at some cost produce in requisite quantities. One commodity which so far as is known is not produced in the bloc and which has important military uses in the bloc is natural rubber. However, natural rubber has never been effectively controlled because important supplying countries were outside the control machinery. In almost every case the bloc has its own production of the commodity and wishes to supplement it by imports. In few, if any, cases has intelligence been able to demonstrate that the denial of an import would reduce the output of any particular military goods in the

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Soviet bloc. It has been somewhat easier to demonstrate that certain commodities embody a contribution of advanced technology but here again the presumption must be that the technology in question is transferable -- though perhaps at greater cost and delay -- by other means than proto-types.

The present controls have been described as aimed at bloc military production capabilities.¹ However, aiming and firing at a target does not guarantee a hit; the target may move, and shortages may become surpluses. What is certain is that a number of goods remain under embargo which the Soviet bloc would like to acquire and which it would probably have used in its war production industries. There is no way of telling -- beyond mere presumption -- that the denial will limit or depress overall production of military end-items. In most cases it must be presumed that the denial of these goods means that the bloc will produce them itself -- probably at a higher cost -- but the burden may well be shifted and borne by the investment or consumption sectors of the bloc economy, or it may be overcome by expanded trade in non-controlled items. This may have a long-run although insignificant effect on the expansion of the bloc's overall economic capabilities but would not affect the industrial potential or military capabilities of the bloc at all in the short run. In the process of aiming at this narrower-military production-target--a number of imports that obviously contribute something to the growth of the Soviet economy have been removed from control. This may have been justified by diplomatic and political considerations but the overall effect on relative economic capabilities--though probably very slight--was almost surely favorable to the Soviet bloc.

2. Relative Productivity of Present Controls

Contrasted with the incidence of the impact of controls as between various sectors of the bloc economy, there is the question of the aggregate impact or cost -- wherever it falls within the economy -- of a given set of

1. See NSC 152/3, Economic Defense, November 6, 1953 (SECRET), also EDAC D-101, February 8, 1955, p. 4.

controls. If we cannot be sure where the cost is borne, can we at least be sure that, given the degree of multilateral controls politically obtainable, we are imposing the maximum cost on the bloc? The answer to this is that we cannot be sure since the items selected for control were not selected on this basis. That the present program imposes a cost on the bloc economy follows if one accepts the proposition that the controls limit the total volume of bloc imports ^{and alter their composition.} ~~by an amount which bears some practical relationship to what trade advantages the participating countries think are involved and are willing to sacrifice.~~ But we have -- at present -- no way of knowing whether and to what extent the bloc will replace the denied goods and how much this would cost the bloc. Put another way, we have no concrete statistical measure of the economic gain to the bloc from the ^{obstructed} trade if it were allowed to take place. The cost to the bloc -- the impairment of its overall economic capabilities -- is the loss of this advantage which in turn is related to the cost of replacing the imports from its own resources adjusted by the savings involved in not producing the exports to pay for the imports.

Thus all we can say about the impact of the present program is that it is a function of the amount of trade cut off and that the greater the volume of trade interfered with, the greater the impairment of bloc economic capabilities. In general therefore we cannot distinguish between bloc imports either on the basis of their unique contribution to the production of a specific military end-item, ^{or on the basis of their unique contribution to the production of a specific military end-item,} or on the basis of the relative cost to the bloc of replacing different imports.

3. Net Security Advantage

^{The impact of the present program on the bloc economy is determined in terms of the amount of trade cut off.}
 It follows from the above that the denial (or vice-versa) of a single commodity can almost never be justified solely in relation to that commodity but only as a part of a bundle or list of commodities selected to cut down the volume of East-West trade. ^{internally - from present program} Thus it is dubious to speak of a particular transaction or bilateral trade arrangement as involving a net security advantage for the West, insofar as this advantage is conceived of in terms of altered relative economic capabilities. The effect of trade controls on relative economic capabilities can be analyzed, if at all, only in terms of the aggregates involved.

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In aggregate terms, the economic advantage of East-West trade is probably greater for the Soviet bloc than for the West. Studies conducted by the Economic Intelligence Committee in connection with NIE-59 provided good evidence that the cost to the bloc of eliminating all East-West trade then (1950-51) being carried on would be considerably greater than the cost to the West. In other words, the aggregate advantage using money terms to measure the net gain of resources to the bloc from the then existing volume of trade was greater than the advantage to the West. Moreover, considering the bloc's lower level of production and income, the gain to the bloc is relatively greater than the comparison of absolute gains would suggest. Even more important, the advantage of trade to the bloc, or conversely the cost of cessation of trade, was thought to be much more directly related to bloc military capabilities, whereas in the West military capabilities could hardly be said to depend on East-West trade at all. There is no reason to believe that the same is not true with respect to the present level of trade and within fairly wide limits of additions to or decreases from that level.

because of the high level of production in both military and civilian goods

As far as the economic analysis of East-West trade can be carried, therefore, the net advantage clearly lies with the bloc. In the absence of evidence to the contrary, anything that increases trade between the bloc and the rest of the world increases the bloc's economic capabilities relative to those of the West and vice versa. A particular transaction or set of transactions can only be said to involve a net advantage to the United States when political or other non-economic factors are introduced into the analysis; since these are usually non-quantifiable it is only a figure of speech to say there is a net advantage for the United States. What is meant is merely that in a particular case political considerations are overriding.

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4. Implications for Policy

The foregoing discussion may be summarized briefly as follows:

1. Trade controls interfere with the composition, ^{probably to some extent} ~~if not~~ with the volume of East-West trade.
2. Trade controls thus impose an economic cost to both the Soviet bloc and the West.
3. This cost is relatively small on both sides but greater for the bloc both absolutely and relatively and probably also infringes on the military sector of the bloc economy. In other words, trade controls hurt the bloc more than they hurt the West.
4. We do not know how the impact of trade controls within the bloc is distributed between various sectors of the economy, but it is presumed from the nature of the goods embargoed that the cost falls on both the military and investment sectors.

What this implies for policy (on the narrow level of economic analysis) is nothing less than a complete embargo on East-West trade. However, as we have seen such an extreme policy would not be acceptable to other participating countries, and in respect of a number of commodities would probably not be feasible. Political and diplomatic expediency and other practical considerations therefore dictate a limited flexible control program.

The criteria employed in selecting goods for denial under the present control program are unsatisfactory because on the one hand they exclude from control not only basic commodities (raw materials and heavy primary capital equipment) essential to economic and industrial growth, but also many things that enter into military production but also have civilian uses. It attempts to be

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more selective than our knowledge of the Soviet economy permits; it relies too little on presumption (frequently compelling) and too exclusively on proof (usually non-existent).

Thus we need a more "rough and ready", pragmatic set of controls and criteria. We need an approach which is concerned with the overall impact and does not quibble over individual items, which does not argue that this item is hard core and that one is not. Finally, we should recognize that in practically no case where there is disagreement is the effect on the bloc one way or the other significant enough to justify the loss of good will of any of our allies or the expenditure of high level diplomatic energies that should be devoted to more important issues. *provided the Council all such as a balanced materially interfere with a sound diplomatic approach.*

The following section explores the availability of alternative conceptual approaches to, and criteria for, a limited control program. In the end it may turn out on purely pragmatic grounds that the best limited control system is with modifications, *the one we have now. But, to repeat, on pragmatic grounds; not on the continued acceptance of the distinction between "strategic" and "non-strategic" as possessing something like the character of divine revelation.*